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SUBJECT: LEBANON: MINISTRY OF FINANCE STAFF REVIEWS  
MEETINGS IN WASHINGTON

#### SUMMARY

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11. (SBU) In separate meetings with Ministry of Finance staff, the common view of their recent meetings in Washington was positive. While MOF Director General Alain Bifani gave a sharp, insightful readout of the meetings, his working level finance team were already focused on the next event, a Eurobond offer. It appears that non-technical discussions were somewhat overshadowed by events at the World Bank. The IMF EPCA will require local oversight by the IMF, which might not be welcome. End summary.

#### BIFANI OVERVIEW

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12. (SBU) On April 25 Econoff and Econ Specialist met with Director General of the Ministry of Finance Alain Bifani to discuss his recent trip to Washington with Minister of Finance Jihad Azour. Bifani, always candid and usually somewhat cynical, was surprisingly upbeat about the delegation's reception in Washington. He noted that the tone was considerably different than any of the previous "possibly as many as twenty" official visits he has made to DC. He characterized their reception as "all positive" with complete political support. He did point out, however, there was very little in the way of technical discussions, and that the core group meeting was an opportunity for clarification rather than vision. Bifani (who is politically connected to President Emile Lahoud and Michel Aoun, not the March 14 majority represented by his minister) elected not to attend any meetings which were purely political, pointing out that by doing so, he would not be accused of being the source of any leak of information. He did attend the meeting with Timothy Adams, which was "more than he expected," but too brief to discuss conditionality "triggers" in detail.

#### THE VIEW FROM THE MOF TEAM

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13. (SBU) On April 26 we met with the MOF finance team, always calm and relaxed despite their busy workload. They were pleased with the results of the many meetings in Washington, attended by two of their six-member team. They characterized the meetings as "touching base" with the donors, and providing a progress update. Although they were concerned about the bill to authorize the USG portion of the donations -- "Is it signed yet?" was the first question -- the discussions in Washington were perceived as positive. Those at the meetings believe the USG understands their

concerns about triggers and possible linkage with the unpopular gasoline tax. They are preparing a proposal to outline conditionality, and to cover the order of disbursement for the funds to be used for debt reduction. They did not have a deadline for delivering the proposals to the Department.

#### BIFANI ON THE EPCA

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14. (SBU) Bifani said that he attended nineteen meetings during the fast-paced three-day trip. The majority were with groups or individuals from the International Monetary Fund (IMF) and the World Bank (WB). Regarding the IMF, Bifani repeated what we have heard previously: the IMF staff was not in favor of the Emergency Post Conflict Assistance program (EPCA), which they indicated was "forced on them" by the IMF board. In fact, he heard rumors that the staff had tried to elicit guarantees from the member countries for the \$77 million EPCA. Because of this resistance, he suggested, the staff were exceedingly supportive, offering any assistance in shifting the weight of responsibilities away from the IMF and toward the donors. His final reading of the situation was that IMF's staff continue to have reservations about Lebanon, believing that the country "can't make it," and would be content to avoid confronting those concerns.

15. (SBU) The delegation from the GOL, which included the Ministers of Finance and Economy and Trade and their staffs, made a "commitment" to a Stand-by Agreement, which assuming successful negotiations should follow the EPCA next year. They suggested to the IMF that negotiations of terms should begin immediately. Bifani told us that because the Central Bank (BDL) was not represented at these meetings and most of the conditionality involves the BDL, this stance may not be

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completely sincere. Bifani, himself a member of the BDL board, understands the "delicacy" of this position. If the new conditions are presented to the BDL as a fait accompli, there are two possible outcomes: acceptance, or a rejection, with the latter jeopardizing any progress achieved. In his opinion, the negotiation of any Stand-by Agreement requires a functioning government. He guessed there might have been a back-room deal, and said he does not know if the commitment to the Stand-by is a maneuver or not - it could simply be a ploy to keep some politicians in office.

#### INCREASED IMF PRESENCE IN LEBANON A SURPRISE

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16. (SBU) One outcome of the discussions with the IMF was GOL's reaction to the requirement for an IMF Resident Representative (ResRep) to administer the EPCA. Although this is a widely-known requirement in such arrangements, it apparently came as a surprise to the delegation. There was no immediate agreement to this requirement. The IMF responded there could be some negotiation as to the selection of the individual or the access by the press to the ResRep, but it was not offered as an option. Bifani's speculation was that the GOL is concerned with both the transparency issue, and also the desire of the GOL to present only one voice -- its own -- to the rest of the world. On a side note, Bifani characterized the French representatives at the meeting as helpful, very technical, but at the same time aware of the difference that might come quickly based on the French presidential outcome.

#### IMF ALREADY SOMETHING OF A BURDEN

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17. (SBU) The IMF is perceived as something of a burden to the MOF team, which has already hosted several visits, and have another one in two weeks. Characterizing the visits as a series of all-day meetings, which take them away from other work, they are nevertheless preparing for the next one.

Asked why the IMF EPCA did not need approval by Parliament, they explained that up to \$1.5 billion in loans for debt reduction was previously approved under Law 476-2002 as a part of Paris II. Until that amount is reached, loans for debt reduction and budgetary support do not need approval by Parliament. All other loans, however, and loans after that total is reached will need approval. Grants do not require Parliamentary approval.

#### WORLD BANK UNDER STRESS

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18. (SBU) The meetings with the World Bank were in complete contrast. Overshadowed by the breaking news about President Wolfowitz, the meetings were not substantive in Bifani's opinion. Many of their interlocutors were uncertain of the future, or already on the way out, like Joseph Saba. Bifani was pleased to see the basics of the 2005 agreement were still a part of the discussions. The WB focused on the issues of the power sector and the social security/pension reform process. The GOL delegation announced that the Social Security office had agreed to "open its book" to the WB. However, when Bifani returned to Lebanon and checked, he says that no one there knew anything about that agreement. In fact, he believes neither side is "telling the full truth". Bifani believes that Wolfowitz was instrumental in WB commitments to Lebanon, which leaves up in the air the question of what will happen if Wolfowitz leaves. Referring to his meeting with Francois Bourignon, whom Bifani described as a non-political economist, Bifani felt there was good discussion about the need to implement the planned reforms. However, at no time was there any discussion about a possible break-even point in the GOL finances, or exactly what is going to be done with donor funds.

19. (SBU) The MOF team was not directly aware of the on-going WB discord. The WB will be sending a team to sign the Development Policy Loan shortly. The \$200 million loan for the power sector is before the WB board for approval now. This loan will need Cabinet approval only. It is expected to go to the Minister of Finance for approval by the end of May.

#### BIFANI ON REFORM

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110. (SBU) Bifani is always willing to share his insight on the current internal struggles in the GOL. He said that recently French Ambassador Emie pointedly asked the Prime Minister about the budget, which has still not been passed by the cabinet. He received no direct answer, but Bifani, who claims the budget as his own, feels that at least the Cabinet could pass it, and then complain that it cannot be enacted because the Parliament cannot meet and the President will not sign it. The social security and pension reforms, on the other hand, had already been submitted to Parliament and have been discussed, with even opposition members in favor. However, as for the EDL, Bifani believed that the GOL is not even beginning to address the three key points, which he says are the choice of a source of power, forecasting of future requirements and investments, and the management issues. These, he feels, should be addressed as soon as possible.

111. (SBU) The MOF team is already focused on the next step in the program, which is the upcoming \$400 million Eurobond issue. Two RFPs are out, seeking two banks to handle the sale, which they expect will be sold over three weeks, largely to Lebanese investors.  
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